

**Prepared Remarks of FCC Commissioner Mignon L. Clyburn
MACRUC 17th Annual Education Conference
Hershey, Pennsylvania
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Good morning, I am told that it is often like pulling teeth to get federal officials to commit to attend regional conferences, but that is not the case for me. I could not resist returning to Hershey, and the only teeth pulled may, unfortunately, be my own after the shameful amounts of chocolate I have consumed.

Seriously, I am pleased to have been invited back and thank you Betty Ann for that humbling introduction. It is always a pleasure to join trusted allies in ensuring that all Americans have access to quality communications services. You keep us accountable and informed at the FCC, and you do so while serving your areas with pride and dedication and for that alone you deserve a big thank you.

It is in this spirit that I have come to give an update on the FCC's progress on implementing the USF reforms we adopted in October. As we discussed when this item was pending last summer, the communications needs of our nation have evolved dramatically due to technological advancements. More Americans are communicating using mobile services, and broadband access is now the gateway by which many Americans obtain critical information and services. Indeed, there was broad, bipartisan agreement, at all levels of government, and among industry and consumer groups, that reform was necessary to reflect those significant changes.

You were all aware that crafting a solution would be a long road filled with ups, downs, and long hours, but with your input and assistance we rose to the challenge. Approximately 18 million consumers have been denied access to some of the most basic features of modern life that you or I take for granted, such as accessing late breaking news on the 'net, or quickly sending an email to a friend. Today, I am proud to say that the Fund is on a sustainable and more effective path, in order to meet today's challenges of reaching these consumers. FCC Chairman Genachowski crafted a plan that transforms the way we spend the \$4.5 billion of the high-cost portion of USF each year. This transformative plan drew from many competing ideas to form a balanced framework that the Commission unanimously approved. It will promote significant broadband deployment, as quickly as possible, to millions of unserved consumers over the next six years.

We know that even the best laid plans fail without the hard work that it takes to bring them to fruition, and make no mistake we are working hard to ensure our USF reform meets our objectives.

In Phase I, we provide for speedy broadband deployment to unserved consumers with an injection of \$650 million in capital in 2012, for both fixed and mobile technologies. While we begin to transition legacy support from those areas that don't

need assistance, we can begin to make a difference in those areas that are lacking broadband service. We expect that hundreds of thousands of consumers will be served with fixed broadband networks as a result of Phase I, and tens of thousands of miles of unserved roads will be covered by mobile networks.

The reform plan preserves about \$2 billion in funding for those rural carriers that currently operate under the rate-of-return regulatory regime. Keep in mind that these carriers serve less than five percent of all telephone access lines in the U.S. and currently serve about 17% of Americans who are not served by broadband in their territories. Even with that realization, our reform recognized the unique nature of these providers—most of which are small businesses. As such, rather than making extreme changes, as some interested parties had called for in the proceeding, we focused instead on modifying their current funding mechanisms in a targeted manner to better address our defined goals. For each carrier, the reforms will have a different impact. Some carriers will obtain additional funds, while others will see a decrease in funding. Significantly, our reform carefully balances the need for certainty and predictability for carriers by avoiding flash cuts and providing transitions so they can adjust to the changes.

We have also created a streamlined waiver process. To date, the Commission has received six waiver requests from rate-of-return companies and one wireless company, which are currently under review. The waiver process we have set out will give the Commission an opportunity to use a safety net in order to ensure *consumers* aren't inadvertently harmed by our reforms. Of course, given our role as the steward of the public's money, the waiver process will focus on the financial health of the providers and whether reform jeopardizes their ability to provide service to consumers.

In Phase II of the reform, which will begin in 2013, we have allocated up to \$1.8 billion to reach consumers who currently have no broadband service in price cap companies' territories and to maintain existing service. The Commission found that over 80% of the 18 million unserved Americans live in the areas served by price cap carriers. As a result, Commission staff is now engaged in a process that will culminate in the adoption of a cost model, to determine the amount needed for each carrier to reach those consumers who do not benefit from Phase I. In order to qualify for that money, each price cap carrier will need to make a state-wide commitment to build broadband and serve for five years in its areas where no other provider offers broadband service. Where a commitment is not made, those funds will be available for other providers to offer service and build broadband to unserved consumers through a reverse auction.

Finally, for the first time and as recommended by the Joint Board on Universal Service, the Commission has determined that mobility service should be funded. We have provided for up to \$500 million of ongoing support through the Mobility Fund. We also have set aside at least \$100 million for the Remote Areas Fund. This will help bring broadband to those Americans who cannot be reached through any of the other high-cost mechanisms.

We are shifting money from areas that do not need support (or as much support) to areas where a broadband network is still needed. We also are requiring that providers meet firm deadlines, with appropriate accountability and reporting, for the money spent and oversight by the FCC and State Commissions. Moreover, by setting a budget of \$4.5 billion, we are helping to stabilize the contribution factor and minimize the burden on consumers and businesses that pay into the Fund.

Now on to the easy part... implementation. For rate-of-return carriers the Wireline Competition Bureau completed work at the end of April on its benchmark analysis for high-cost loop support (HCLS), using a quantile regression. HCLS provides close to \$800 million annually to help offset high capital and operating expenses faced by rate-of-return carriers. However, under the old system, HCLS lacked benchmarks for determining whether subsidies were warranted and it fully subsidized high expense levels, effectively punishing efficient operations. The new benchmarks impose reasonable limits on subsidized capital and operating expenses by comparing spending among similarly situated companies. The net effect is that more funding is freed for hundreds of small rural carriers, which in turn will help connect more Americans. Here is what is not making headlines: As a result of the benchmarks, carriers serving 705 study areas across this country will actually receive more funding for broadband, Carriers serving 129 study areas, that have unusually high expenses, will have to take steps to bring their operations more in line with their similarly situated peers.

The FCC conducted hundreds of meetings and had ongoing dialogue with and input from all interested parties, which led to a significantly improved analysis. For example, the benchmarks now take into account a number of additional factors regarding a carrier's territory. In addition, the Bureau modified the timeline so carriers will have more time to adjust to the changes over an 18-month period.

In addition, the Wireline Competition Bureau announced Connect America Fund Phase I amounts for price cap carriers. CAF Phase I allocates \$300 million to extend broadband for up to 400,000 currently unserved homes, businesses, and community anchor institutions in rural America. Price cap carriers have until July 24th to notify the Commission the amounts of money they plan to use and the census blocks they will commit to build broadband in for receiving CAF Phase I support. While carriers are not required to participate, the Commission anticipates that hundreds of thousands of Americans will gain access to broadband, even if carriers only accept a portion of the available money. We are committed to using whatever amounts are not accepted to further our broadband goals for the nation.

The Wireless Telecommunications Bureau has scheduled the Mobility Fund Phase I reverse auction for September 27, 2012. Deemed Auction 901, it will determine which providers will receive Mobility Fund Phase I support to deploy 3G or better wireless service for those areas currently unserved. Up to \$300 million will be available in this auction and carriers may not receive support for areas they have previously stated they plan to cover. The auction will maximize coverage of unserved road miles and winners will be required to deploy 4G service within three years, or 3G service within

two years, accelerating the migration to 4G. Mobility Fund recipients will be subject to public interest obligations, including data roaming and collocation requirements.

The Wireless Bureau completed the final auction procedures in May, including finalizing the list of census blocks eligible to receive support in the auction. Over 50 interested parties commented on the procedures and/or census block eligibility and the staff made adjustments where it was proven to be needed. Prior to opening the short-form filing window on June 27th which closes on July 11th, the Bureau anticipates rolling out a tutorial for prospective bidders.

Staff also has begun the crucial work for moving to Phase II of our reforms. A few weeks ago, Commission staff initiated a process to gather data regarding wire center boundaries for price cap carriers, which is necessary to determine where support should be targeted. Around the same time, the Commission solicited public input on some of the key policy questions that need to be resolved in order to develop a cost model which will be used to determine support levels.

As you know, I have a deep connection to rural America and I believe that these reforms will allow us to come even closer to achieving Congress' goal, of providing *all* Americans access to affordable voice, and advanced communications services. But I also recognize that these efforts to modernize the Fund—a decade in the making—may not resolve all the issues that were raised in the proceeding. The FCC has been working very hard to hear everyone's concerns and address them in a timely fashion. We have already addressed numerous issues in three separate Commission-level decisions. Moreover, since the Order was released, our staff has answered multiple requests for clarifications and they have spent hours on conference calls with state commission staff and other parties. These visits included several trips specifically focused on USF reform, where they answered questions about implementation details. At all times we have had an open door policy and have worked diligently towards resolutions that benefit consumers and help us achieve our universal service goals.

Of great importance to me is the beneficial impact this reform will have on consumers and their communities. It is a universally accepted principle that we *all* benefit more when everyone is connected. As such, our reform recognizes that broadband, both fixed and mobile, are the services consumers are demanding, and we should offer support where it is needed. We expect that millions of consumers will get fixed and mobile broadband coverage where they live, work, and travel as a result of our reform over the next six years.

Of course, I cannot take my seat without mentioning Lifeline and Link Up reform, another hot topic last year. I am very happy to report that with the significant help of the Joint Board on Universal Service, the Commission voted to reform and modernize the Lifeline and Link Up programs in January. For the past 25 years Lifeline has helped tens of millions of low-income Americans afford basic phone service, and the percentage of low-income households with phone service has increased from 80% in 1985, when Lifeline began, to nearly 92% last year. However, the program was facing significant

challenges that needed to be addressed, including the fact that consumers now have numerous providers from which to choose as compared to when Lifeline first began. This had the inadvertent result of some consumers obtaining more than one Lifeline benefit. So we created a National Lifeline Accountability Database to prevent multiple carriers from receiving support for the same subscriber. The Commission also made a number of other changes to ensure that the Lifeline program is as efficient and effective as possible, while meeting the Commission's newly instituted goals for the program to ensure the availability of both voice and broadband services, while minimizing the contribution burden on all consumers and businesses.

The priorities for me as we worked on these programs were that eligible families who needed phone service could sign up for and participate in the program; that we continued to allow families to choose the service that makes sense for them—whether that is mobile or wireline phone service; that we addressed the waste, fraud and abuse in the programs, and set a savings target tied to those reforms; and that we begin to reorient the program, towards tackling the broadband adoption gap low-income consumers face.

The Commission recognized that the Lifeline program can play an important role in helping to close the broadband adoption gap. As part of its plan to modernize the Lifeline program, the Commission recently launched a Broadband Pilot Program and will be accepting applications on July 2nd.

We also have teed up reforming the contributions side of the Universal Service Fund equation, and we are encouraging input from all stakeholders in that proceeding, which leads me to my final point.

We need our state regulators. We are the first to admit the obvious: We do not know it all. The information you provide us is invaluable. Continue to respond to requests for further collaboration with the FCC. Let us know what we're doing well and what we can do better. I am pleased that one of my colleagues from the Wireline Bureau, Patrick Halley, has joined the conference to talk in more depth with you about our reforms. And I look forward to speaking with you all, in more conversational settings, throughout the conference. Thank you for your time and for allowing me to share my message with you.